

July 28, 2005

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LEON COUNTY
HUMAN RESOURCES

Ms. Lillian W. Bennett
Director of Human Resources
Leon County Board of County Commissioners
301 S. Monroe Street
Tallahassee, FL 32301

Dear Ms. Bennett:

Attached please find a copy of the "White Paper" I mentioned in my most recent correspondence to you. I believe the information contained in this document would be an excellent basis for our future discussions. I hope you also find it of value.

Please give me a call should you have any questions.

Sincerely,

Gloria Hall McNeil
Gloria Hall McNeil
Director - Human Resources

GHM/S/p

Attachment

cc: Anita Favors Thompson, City Manager
Jim Parry, Leon County Schools
Glory Parton, Human Resources
Catherine Shoultz, Human Resources
Amy Cox, Leon County Human Resources

42

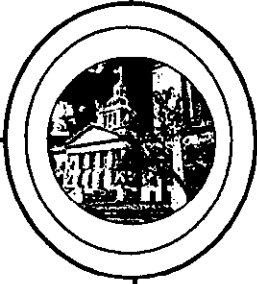


Tallahassee

Pooling Arrangement

May 2005

42

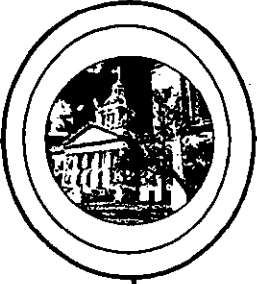


Health Care Pooling

Health care pooling sometimes referred to as "group purchasing," is a concept that has been around for many years, and has been heard about more frequently lately. As health care costs continue to rise by double-digit percentages, everyone is looking for ways to stop or at least mitigate the cost increases. One such way that is sometimes discussed, particularly among employer groups, is health care pooling (herein referred to as "pooling").

Employer pooling arrangements can vary widely in complexity and effectiveness. When exploring the feasibility of pooling, there are numerous factors that should be taken into consideration. We have separated the factors into four broad categories for discussion purposes. Each category is then discussed in more detail below.

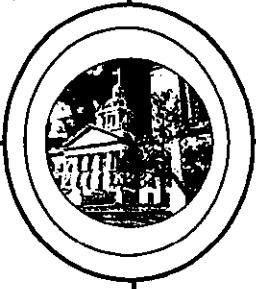
1. Group formation
2. Plan fundamentals
3. Plan administration
4. Special plan considerations



1. Group formation

- Purchasing group eligibility
- Decision-making authority
- Contractual issues
- Legal constraints

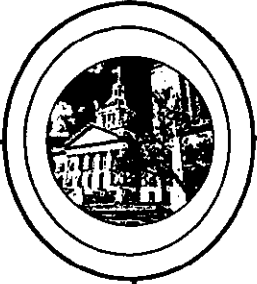
In creating a pooling arrangement, the first task is to form the "purchasing group". The purchasing group is generally a core group of employers that have similar issues and goals. This group serves as the foundation of the purchasing group and determines the future direction of the group. Often the core group creates a formal contractual arrangement for participation. This may include the eligibility and term requirements for participation, the rights and responsibilities of participating employers, the decision-making process, and authority levels. As with any group initiative, one of the difficulties is determining where the ultimate decision-making authority should lie. A group initiative among employer groups can be difficult because each entity has historically had decision-making authority over its own health plan, and may now have to give up all or some authority and/or consider the goals of the group in addition to (or sometimes in lieu of) its own goals. The group must also agree upon the extent to which participating employer plans will be pooled together. For the greatest economies of scale, the group would agree to participate in a consolidated contractual arrangement with a health plan vendor; however, this is often the most difficult goal to achieve. Legal constraints, imposed by federal, state, or local governments, may exist as well and post additional challenges.



2. Plan fundamentals

- Plan design
- Funding
- Cost allocation

Once the purchasing group has been formed, a strategic direction should be determined, encompassing the basics of creating and administering a health plan. If the group agrees to contract under a single arrangement, all the fundamentals outlined above must be discussed and negotiated within the group. What type of plan design is desired? Are managed care plans acceptable? Is a "network only" plan, such as an HMO, feasible? Is one plan option sufficient, or are multiple options desirable? How should the plan be funded? Employer size, risk tolerance, budget flexibility, and financing philosophy generally determine what type of funding arrangement is most appropriate for an employer group. For example, large employer groups tend to favor self-funding, while smaller employers are often fully insured. Differences in any of these components among the employer groups can increase the complexity of the pooling arrangement. Additionally, there are other important questions that have to be considered such as, once the funding arrangement is agreed upon, how will the costs be allocated? Will the entire group be "pooled" together so that each employer funds an equal share per participant? While this arrangement works well for single employer group that consists of numerous subsidiaries or operating units, it may not be appropriate or acceptable to distinct employer groups with different funding

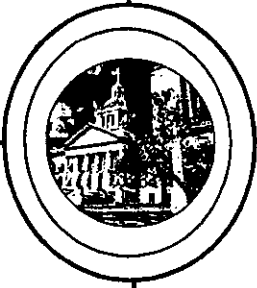


sources. Inevitably one group subsidizes the other, (which is the basis of "pooling" and insuring risk), and there are financial "winners" and "losers" in any given time period.

3. Plan administration

- Eligibility
- Reporting
- Billing
- Rate development

The day-to-day operations involved in the administration of a health plan is a complex process for any employer and can be exponential when done on a group purchasing basis. While there have been significant advancements in technology in the past decade, the variations in capabilities between employer groups, as well as health plan vendors, is vast. Some health plans allow employers to transmit eligibility data via the Internet, while others require weekly or monthly file or tape feeds generated from the payroll system. Some employer groups have Internet capabilities, while others do not. Some employers do not utilize one payroll system for their groups and cannot generate a file or tape feed, and use paper forms to transfer eligibility information. Combining the various eligibility functions of each employer into one pooled format can be a complicated prospect. Plan reporting is generally not a complex function, although setting up the plan to accommodate the needs of each employer is a critical step. Similar to eligibility, the billing function can be complex and becomes more so when multiple groups are involved. Insured rates charged by

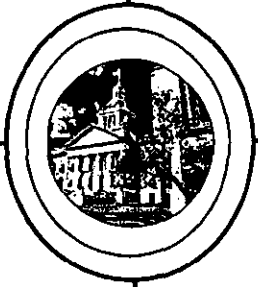


health plan vendors (for fully-insured groups) depend largely on the plan design and demographics of the group. If a high-risk group's experience is blended with a lower risk group's experience, the high-risk group essentially shifts some of its cost, and the lower-risk group subsidizes the cost of the high-risk group. As noted previously, with different funding sources and risk profiles, this may not be a desirable result for some employer groups. Conversely, for self-funded plans, the Administrative fees charged are largely dependent upon the plan design and size of the group. Therefore, the larger the group and more consolidated the administration, the lower the administrative fees, which favors a pooled approach for all parties involved.

4. Special plan considerations

- Risk level of groups
- Impact of unionized participants vs. non-unionized
- Retirees

There are several other group-specific issues that can affect the feasibility of a group purchasing arrangement that should be taken into consideration. For Tallahassee, these can include the varying risk levels of some of the groups that may join, such as police and fire departments. Unionization may constrain the ability to select plans, plan designs, and the funding mechanisms. Bargaining agreements also tend to require long lead times for negotiations. Extending health plan coverage for retirees can be a costly, but many times, necessary benefit. The implementation of GASB



financial reporting requirements adds another level of complexity to the accounting of the benefits for these participants.

Because of the issues outlined above, the feasibility of a pooling or group purchasing arrangement should be closely examined before undertaking such a project. Detailed discussions about the potential advantages and disadvantages, challenges and risks of such an arrangement should be clearly defined and evaluated on a group-specific basis. Given the right combination of employers and conditions, some economies of scale are possible. Conversely, if all risks are not quantified, the financial and non-financial ramifications could be undesirable, at minimum, for an employer.